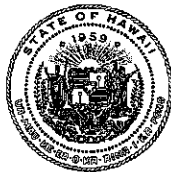


LINDA LINGLE
GOVERNOR



GEORGINA K. KAWAMURA
DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER
PUBLIC UTILITIES COMMISSION

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF ECONOMIC RECOVERY
AND REINVESTMENT (ARRA)

September 23, 2010

FINANCE MEMORANDUM

MEMO NO. 10-10

TO: All Department Heads

FROM: Georgina K. Kawamura
Director of Finance

SUBJECT: Fiscal Biennium 2011-13 Executive Budget Request and the Program and Financial Plan for the Period 2011-2017

The following policies and guidelines shall be used in preparing the Executive Budget Request for FB 2011-2013 and the Program and Financial Plan (PFP) for the period 2011-2017.

General Background

In December 2007, the nation entered into a recession of proportion unseen since the Great Depression. Like other states, Hawaii felt the devastating effects of the recession, including job losses, decreased tourism and a slowdown in construction. In FY 09, the State's general fund tax revenues plummeted by 9.5 percent.

While the nation is recovering from the lingering fiscal and economic impact of the recession, the recovery process has been slow and uneven. The national unemployment rate has decreased in recent months but remains high at 9.6 percent. Sales of existing homes surged in early spring but plunged to a 15-year low in July. Combined with concerns over instability in the European economy, many are considering the potential for another recession.

Of further concern is a possible "cliff" effect anticipated to occur after federal funds from the American Recovery and Reinvestment Act (ARRA) of 2009 are no longer available and state budgets have to make up the difference. The State of Hawaii's FB 2009-11 Executive Budget includes over a billion dollars in ARRA funds for operating and capital improvement costs and many of these costs may need to be supported by general funds in the future.

In recent months, Hawaii's economy has shown signs of improvement with decreases in our unemployment rates and increases in visitor arrivals. However, we must continue to be cognizant of national and global concerns which could impact our economic recovery. Hence, we remain cautiously optimistic about Hawaii's economic recovery as we move into the new biennium.

At its most recent meeting on September 8, 2010, the Council on Revenues (COR) changed its FY 11 general fund tax revenue forecast downward from 6.2 percent to 2 percent and FY 12 from 5.8 percent to 10.0 percent growth, which primarily reflects the delay in payment of individual tax refunds during FY 10. The COR currently forecasts revenues for the out-years, FYs 13-17, to grow at a pace of 6.0 percent annually.

Budget preparation policies for FB 2011-13 must take into consideration the ongoing economic recovery and its underlying uncertainties. As such, our focus is to improve fiscal management of our reduced resources in the upcoming fiscal biennium with a budget that is transparent and accountable, one which will allow us to move forward and transition our State for a new administration.

Consequently, the primary task during the initial budget review process will be to "clean up" each department's budget base and BJ details to more accurately reflect program expenditure requirements. Once this task is completed, we will have a more accurate backdrop for the consideration of current ceiling budget requests and will be prepared if requests for additional resource allocations for current programs by the next administration are considered.

The State's Fiscal Condition

Actual general fund tax collections for FY 10 indicated that revenues had increased by 3.9 percent (net of 0.5 percent decrease adjusted by \$187.4 million in deferred tax refunds) over the prior year. Preliminary general fund tax collections for the first two months of FY 11 indicate that revenues have decreased by 22.8 percent (net of 4.7 percent increase adjusted by \$187.4 million in deferred tax refunds paid out in July 2010) over the prior year.

Following the revenue decline of 9.5 percent in FY 09, the 0.5 percent decrease (unadjusted) in FY 10 left insufficient resources to cover our FY 10 obligations, even at significantly reduced levels. Current uncertain fiscal conditions require departments to take a hard look at their budgets and expenditure requirements. Improving efficiency and reducing costs for State government activities and services should always be our goal.

I. General Policies

The following general policies are hereby provided for the development of the Executive Budget Request for FB 2011-13.

1. To facilitate budget accountability and transparency, all departments and agencies must conduct a thorough review of their budget base and BJ details to ensure that their budget reflects true expenditure requirements, to the closest extent possible.
2. For operations, the Biennium Budget will be based on FY 11 appropriations from Act 162, SLH 2009, as amended by Act 180, SLH 2010, minus necessary adjustments, and plus collective bargaining adjustments, restoration of furlough savings amounts and recurring costs, as applicable. Individual departmental budget ceilings are established for all departments by the Department of Budget and Finance (B&F). Under their respective budget ceilings, departments are authorized and encouraged to recommend trade-offs and transfers within and among programs under their purview to reflect the departments' current priorities and changing conditions.
3. Given the underlying uncertainties regarding the State's economic recovery, no significant adjustments to expenditures will be proposed during the initial budget review process by the current administration. However, departments may submit operating budget requests for additional resource allocations for current programs or to address health and safety requirements for consideration by the next administration.
4. Departments should continue their efforts to maximize efforts to use non-general funds, as appropriate, to support their programs. Federal funds, special funds, and other available funding sources should be considered as a replacement for general funds. Except as otherwise provided by law, special or other funds authorized to receive general revenue receipts, or general fund appropriations, should consider the feasibility of discontinuing such general fund support. As necessary, draft legislative proposals should be prepared to discontinue such support and to transfer remaining general fund balances for consideration by the next administration.
5. During the initial budget review process by the current administration, the Capital Improvement plan shall be minimal, with a focus on continuing our Major Repair and Maintenance program to address the current backlog and improvements for energy efficiency. Departments may submit requests for completion of ongoing capital improvement projects or projects to address health and safety concerns for consideration by the next administration.
6. Pursuant to Section 37-68(1), HRS, any proposal for new programs, regardless of funding sources, must demonstrate that such programs are appropriate functions of State government and can be implemented by government as cost-effectively as by the private sector.
7. Departments should be prepared to initiate necessary enabling legislation, or appropriate rule changes, to coincide with budget requests, as applicable.

8. However, bear in mind that no significant program legislation should be proposed at this time. The B&F analysts should be informed of the applicable proposals as part of the budget review. (Form A, *Request for Operating Budget Adjustment*, should be used to provide the necessary information to justify the request.)

II. Submission Requirements and Format

1. Biennium Budget requests shall be submitted according to the requirements and formats as specified in the attachments.
2. All budget submissions will be subject to review and evaluation by B&F and the Governor. Worksheets and other supporting details may be requested and should be made available upon request.

III. Due Dates

The following must be provided to this office:

1. By Monday, August 9, 2010: Completed Form CB-1 for Collective Bargaining non-salary cost data.
2. By Friday, October 15, 2010, the following must be submitted, reflecting your budget submission:
 - Two copies of Forms A, A-Attachment, B, B-1 and C (relating to the operating budget); and Tables P, Q, and R, and Forms S, S-1 and PAB (relating to CIP budget). A narrative overview of Form B-1 requests is optional.

For CIP requests to be considered by the next administration, submit two copies of Form S-1 only. A narrative overview of Form S-1 requests is optional. Tables P, Q, and R and Form PAB are not required at this time (Tables P, Q, and R should not be inputted in eCIP until further notice).

 - Electronic files of Forms B, B-1, C, S and S-1 should be transmitted to your B&F analyst.
 - Updated BJ details of your budget submission to be considered by the current administration (i.e., should match Form B grand total) in Excel/electronic format should be transmitted to your B&F analyst and Ms. Sharon Kotaka (sharon.y.kotaka@hawaii.gov) of my staff.
3. By Wednesday, December 1, 2010, the following must be submitted, reflecting the Governor's budget decisions:

- Updated BJ Summary Tables and BJ details in eBUDDI/Excel files/other electronic files.
- Two copies of each Budget Narrative, with electronic file(s) transmitted to your B&F analyst.
- Updated Performance Measures in eANALYT.
- Two copies of Tables P, Q, and R, updated in eCIP, and Form PAB.

Departments will be notified later of the timetable for B&F recommendations and Governor's decisions on the Biennium Budget and due dates for additional information required for review of requests submitted for consideration by the next administration.

Attachments

- Attachment 1: Current Services Operating Budget Ceilings
- Attachment 2: General Budget Guidelines for Operating and CIP
- Attachment 3: Additional Operating Budget Detail Guidelines
- Attachment 4: Collective Bargaining Cost Data (sent out earlier under separate Finance Memorandum No. 10-08, dated May 10, 2010)
- Attachment 5: Operating Budget Submission (Forms A, A-Attachment, B, B-1, C)
- Attachment 6: CIP Submission (Tables P, Q, R; Forms S, S-1, PAB)
- Attachment 7: Instructions for Preparing Program and Financial Plans and Program Budget Requests (September 2010)